

# TAX DISPATCH

Volume 9, Number 1

## Indiana Tax Amnesty Tally Exceeds All Expectations

The Indiana Department of Revenue would like to say thank you to all the tax practitioners who encouraged their clients to participate in the tax amnesty program.

With your help, the Department collected \$255 million for Indiana Tax Amnesty. The Department of Revenue released the final tally to the public on Dec. 22, 2005.



"There was just a spectacular job of implementing this program," said Gov. Mitch Daniels.

The final figure is nearly four times more than the \$65 million the legislature initially targeted for total collections. More than 91,000 taxpayers participated in

the amnesty program, and 87 percent of the total collections came from cash.

"The governor expects us all to think and plan intelligently, and to consider how our actions will affect taxpayers throughout the state," said Commissioner **John Eckart**. "We kept that at the forefront of each decision and the results are a win for everyone."

The Department of Revenue is currently working to litigate against those who were eligible for amnesty but did not participate. The agency is also working to implement several other initiatives that will expedite tax billings, monitor businesses more closely and suspend licenses when tax payments fall behind.

## I-File: Faster, Friendlier, Free

The newly revamped I-File is now available to taxpayers. The free online tax processing program now features several user-friendly features making it easier and faster to file Indiana taxes.

Designed in a "question and answer" format, I-File asks questions to determine the correct tax form to file and your eligibility to claim exceptions. Help links, referencing current tax booklets, are available throughout the program to answer questions as they arise.

"It truly is hard to get lost using this Q and A format, even for someone who may not be familiar with the style," said **Karen Barthelmes**, quality assurance manager.

Taxpayers with the same address and/or employer can save time by carrying over the information from the previous year, utilizing the "pre-fill" function. While the new "resume" function allows the user to save and finish at another time.

The time you have to wait to get a refund is shorter with I-File, averaging seven to 14 days.



**Goodbye TeleFile, hello I-File**

Any taxpayer that filed individual income taxes last year with the state of Indiana is eligible to use the I-File program. "With the elimination of the TeleFile program, more than 57,000 former users of that program may want to switch to I-File this year," said Commissioner **John Eckart**.

To access I-File, go to [www.ifile.in.gov](http://www.ifile.in.gov)

**INtax: A One-Stop, Self-Service Resource**

Just over a year after the launch, INtax has become a big success not just with the Department but with its users. INtax provides a one-stop, self-service resource for all tax-related services between the Department and the state's business taxpayers.

"Since its inception, INtax has captured data from over 35,000 returns, registered in excess of 14,000 businesses and collected over \$363 million," said Andrew Leohr, Accenture consultant. "It has also cut down the amount of paper returns sent to the Department since its inception."

The Department recently updated INtax with the intention of making it even more customer friendly.

"INtax now offers additional tax forms for sales and withholding taxes, a new tax type in Prepaid Sales Tax, and significantly increased features for service provider businesses – those businesses that provide fee-based tax services for filing and payment of taxes on behalf of clients," said Leohr.

Included in the new service provider features are enhancements to site registration, new features for client registration and online maintenance, bulk filing for annual withholding reconciliations (Form WH-3 utilizing upload files of withholding information based on the Federal Social Security Administration's electronic W-2 file format), bulk payments upload (uploading a payment file for multiple clients in one transaction), and service provider security (features for both the provider and the client).

INtax is constantly growing and the Department has expectations to continue adding more features, more eligible taxes, and more customer service features in the near future. To learn more about INtax, or to get started as a user today, visit [www.intax.in.gov](http://www.intax.in.gov)

**GET YOUR STATE  
TAX NEWS FASTER**

If you would like to receive an e-mail notification when each new issue of the Indiana Tax Dispatch is posted to the Department's Web site, please send an e-mail to Shannon Sutterfield.

## 2005 Corporate Income Tax Highlights



### References to the Internal Revenue Code

References to Public Law 246-2005, Section 70 of the Internal Revenue Code means the Internal Revenue Code of 1986.

### Two exceptions:

- IRC Section 179 capped at \$25,000
- Domestic production activities deduction under IRC Section 199 not part of Indiana adjusted gross income

All other changes resulting from new federal legislation begins on or after Jan. 1, 2005.

### Modifications to Adjusted Gross Income

#### Special (Bonus) Depreciation Allowance

- Taxpayers that own property must add or subtract an amount necessary to make their adjusted gross income equal to the amount computed without applying any bonus depreciation.

#### Excess First-Year Capital Investment (IRC Section 179) Deduction

- Expensing limit capped at \$25,000.
- The increased deduction and phase-out limitation allowed by 2003 federal legislation is not allowed for calculating Indiana adjusted gross income.

#### Deduction for Domestic Production Activities

- Any deduction claimed on the federal return must be added-back to the state.

#### Reduced Tax Rate on Income from Qualified Military Base Enhancement Area

- Reduced tax rate of five percent on income attributed to businesses that locate new operations within inactive or closed military bases.

#### Credit for Assessments Paid to Indiana Comprehensive Health Insurance Association

- Former provision repealed that allowed an income tax credit for assessments paid by insurance companies to the Indiana Comprehensive Health Insurance Association.
- An insurance company may claim a credit against income tax and premiums tax equal to 10 percent of the amount of the assessments paid before Jan. 1, 2005, against which a tax credit has not been taken before Jan. 1, 2005.
- If maximum amount of credit exceeded, the unused portion may carry forward.

#### Restrictions Limit Certain Tax Credits to One per Project

- Taxpayer may not be granted more than one tax credit for the same project:
  - o Enterprise Zone Investment Cost Credit
  - o Industrial Recovery Tax Credit
  - o Military Base Recovery Tax Credit
  - o Military Base Investment Cost Credit
  - o Capital Investment Tax Credit
  - o Community Revitalization Enhancement District Tax Credit
  - o Venture Capital Investment Tax Credit
  - o Hoosier Business Investment Tax Credit

**E Z Loan Interest Tax Credit and Termination of Enterprise Zones**

- The Department must report to the Indiana Economic Development Corporation the number and amount of Enterprise Zone Loan Interest Credits claimed.
- Each Enterprise Zone must submit to recommendations whether or not the zone should remain in existence.

**Indiana Research Expense Tax Credit**

- Redefines the base amount for the research expense credit as research expenses and gross receipts effective July 2005.
- The credit is equal to the research expenses minus the base amount, multiplied by 15 percent or \$1,000,000 whichever is less, and plus 10 percent of the excess over \$1,000,000 effective 2008.
- Research expense credit carry forward is reduced from 15 years to 10 years effective Jan. 1, 2006.
- Members of a limited liability company are eligible for pass-through treatment.

**New: Military Base Investment Cost Tax Credit**

- Credit for investment in a business located in a military base, a military base reuse area, an economic development area, or a military base recovery site.
- The amount of the credit depends on the type of business, number of jobs created, and amount of the investment. The maximum amount of the credit may not exceed 30 percent of the investment.

**EDGE Program and Job Retention Credits**

- EDGE program to include projects for job retention and job creation in Indiana. Applicant must employ at least 200 employees.
- Capped at \$5 million per year and extended through June 30, 2007.
- A trust, limited liability company, and limited liability partnership are eligible pass-through entities for the EDGE tax credit.

The Department has updated the following Commissioner's Directives since the last issue of the *Tax Dispatch*:

**Commissioner's Directives**

Collection of Tax from Transient Merchants

New or Replacement Tires on Vehicles

Confidentiality of Taxpayer Information

Seller Registration, Methods of Remittance, Certified Service Providers and the Taxability Matrix

Amnesty Provisions for Sellers Registering to Collect Indiana Sales Tax under the Streamlined Sales Tax Program

Prohibition of Multiple Tax Credits for Same Investments

Local Food and Beverage Taxes

## FORM DESIGN SUGGESTIONS

Do you think you could design a better tax form or booklet? Please send your individual tax suggestions to **Diane Blankenship** and corporate tax suggestions to **John Sundt**.

# 2005 Individual Income Tax Highlights

## Filing extension

- The IRS has expanded its extension of time to file individual income tax from four months to six months (federal Form 4868). Indiana accepts the federal extension, plus 30 days. This sets a deadline for Nov. 17, 2006, for 2005 returns due Apr. 17, 2006.

## Dependent-child exemption

- The IRS has redefined the definition of a dependent child for exemption purposes. While Indiana accepts the revised federal definition for the regular dependent exemption, Indiana's definition of an additional dependent exemption (\$1,500 per qualifying child) will **not** change.

## Domestic production activities claims

- Any deduction claimed on the federal return (1040, line 35) for domestic production activities must be added back to the new line 5 on the IT-40. Note: No add-back is necessary on the IT-40PNR; it will be reported on the IT-40PNR Schedule A, Section 2, line 38A only (**not** on line 38B).



## New cost credit

- There is a new military base investment cost credit, which is based on qualified investments in a business located in a military base. Corporate taxpayers are also eligible to claim this credit.
- Tax credit limitations – According to PL 199-2005, a taxpayer cannot be granted more than one credit for the same project. The credits that are included in this provision are:
  - o Capital investment credit
  - o Community revitalization enhancement district credit
  - o Enterprise zone investment cost credit
  - o Hoosier business investment credit
  - o Industrial recovery credit
  - o Military base recovery credit
  - o Military base investment cost credit
  - o Venture capital investment credit

## TeleFile defunct

- Indiana no longer offers the TeleFile method of filing because the IRS discontinued the program. Individuals that have filed previously are encouraged to use the new I-File program, scheduled to launch on Feb. 1. Those who have not filed previously may file using either the IT-40EZ or IT-40.

## New reporting practices

- There is a new way to report certain deductions and credits on Schedules 1 and 2 (Schedules D and E from the IT-40PNR). A 3-digit code number has been assigned to the least-commonly claimed deductions and nonrefundable credits.

## Net Operating Loss Update

The federal Form 1045, Schedule A, was revised February 2006, and affects the 2005 tax filings. Visit the [Tax Professional site](#) to see how this changes the 2005 IT-40NOL.

## First Indiana Small Business Forum Coming Soon



There's still time if you or someone you know would like to learn more about starting a small business. This year's Indiana Small Business Forum is on Tuesday, Apr. 18. Representatives from the Better Business Bureau, Department of Revenue and the Internal Revenue Service will speak on the following topics:

- Tips to increase profits.
- Techniques to manage business accounts more efficiently and effectively.
- Answers to questions on accounting, finance and taxes.

Seating is limited, so register today. For more information and to register visit [www.indybbb.org/sbf](http://www.indybbb.org/sbf)

**When:** Tuesday, Apr. 18, 2006  
8:30 a.m. – 12 p.m.

**Where:** Indianapolis Training Center  
2802 N. Meridian St.  
Indianapolis, IN 46204

## Indiana Department of Revenue Contact Information

### Telephone Assistance

- Individual Income Tax Information: 317-232-2240
- Sales Tax Information: 317-233-4015
- Withholding Tax Information: 317-233-4016
- Corporate Tax Information: 317-615-2662
- Practitioner's Hotline: 317-233-4017
- Collection/Liability Inquiries: 317-232-2165
- Tax Forms Order Line: 317-615-2581
- Motor Carrier Services: 317-615-7200
- Telephone Device for the Deaf: 317-232-4952



### Refund Status

- Automated Information Line: 317-233-4018
- Web site: <http://www.in.gov/dor/>

The Department has updated the following Departmental Notices since the last issue of the *Tax Dispatch*:

## Departmental Notices

How to Compute Withholding for State and County Income Tax

Prepayment of Sales Tax on Gasoline

Interest Rates of Calendar Year 2006

Form Specifications for Software Developers

State and Federal Excise Taxes Levied on Motor Fuel

All Fuel Tax Accounts

Marion County Local Tax Increases

Food and Beverage Taxes

The Department has updated the following Information Bulletins, relating to both individual and sales tax, since the last issue of the *Tax Dispatch*:

## Income Tax Information Bulletins

Biodiesel Tax Credits

Individual Earned Income Tax Credit Procedures

Ethanol Production Tax Credit

Hoosier Business Investment Tax Credit

## Sales Tax Information Bulletins

Sales of Food

Auto Rental Excise Tax and Marion County Supplemental Auto Rental Excise Tax

Professional Racing Team Engines and Chassis

INDIANA  
DEPARTMENT OF REVENUE  
100 N. Senate Ave  
Indianapolis, IN 46204